CHINA'S STRATEGIES in LATIN AMERICA

François Lafargue, Ph.D.

CHINA TODAY faces an immediate challenge: energy dependence. For many years it has tried to diversify its sources of hydrocarbons, but the deposits of Central Asia and the Caspian Sea have turned out to be disappointing, with reserves much below preliminary estimates. As a consequence, within the last decade China has been paying close attention to Africa and Latin America. However, Beijing's growing political and economic presence is increasingly perceived by the United States as a serious intrusion, particularly when it comes to Latin America, an area the United States has long regarded as being in its sphere of influence. Altogether, China's moves have aroused great anxiety in the United States.

The People's Republic of China (PRC)—eighth largest importer of oil in 2000 and fourth in 2003 after the United States, Japan, and Germany—will probably occupy second place before the end of this decade. Imports, which accounted for 27 percent of China's oil consumption in 1999, 37 percent in 2002, and 43 percent in 2005, are on a constant upward swing. Thus, dependence on foreign energy has become a major preoccupation of China's leaders, who see the current situation as an obstacle to achieving the broader role they intend China to play on the world stage.

Until 1990, three countries (Indonesia, the Sultanate of Oman, and Iran) were China's principal suppliers of imported oil. However, diversification became necessary because of the PRC's increase in consumption and Indonesia's diminishing reserves.[1] Consequently, resource-rich Latin America has become coveted territory, especially since the United States is now perceived to have established its hold over all the countries of the Middle East (except Iran) as a result of its intervention in Iraq. Meanwhile, the shortfall in Caspian Sea deposits (now estimated at just 2 to 4 percent of world reserves) is exacerbating China's problem.

Latin America, with 9.7% of world oil reserves, could potentially enable the PRC to meet its projected energy requirements. Not surprisingly, therefore, China has become the second largest importer of Latin American oil, after the United States. In fact, since 2001, China's appetite for Latin American oil has grown at least ten-fold.

China's Omnipresence

Although it has been active in Africa since the 1960s, China had–until recently–never exercised significant political or commercial influence in Latin America. For a very long time the continent remained veritable terra incognita for Beijing. In part, China's reluctance to enter the region resulted from U.S. influence, especially during the Cold War. Most Latin American governments awaited Richard Nixon's visit to Beijing in February 1972 before establishing diplomatic relations with the PRC (Argentina and Mexico in 1972, Brazil 2 years later, and finally Bolivia in 1985). In recent years, though, the PRC's diplomacy has been particularly dynamic and determined in Latin America. The 2-week tour in November 2004 by Chinese President Hu Jintao, who traveled through several countries of the region (Argentina, Brazil, Chile, and Cuba), illustrates this determination.

For the moment, Latin America is only a modest supplier to the PRC, but bilateral trade is growing, from $12.6 billion in 2001 to 26.8 billion in 2003 and 30 billion in 2004. In conducting its campaign of economic and political expansion, China has adopted the following modus operandi: It negotiates and ensures regular oil supplies in exchange for investment; it

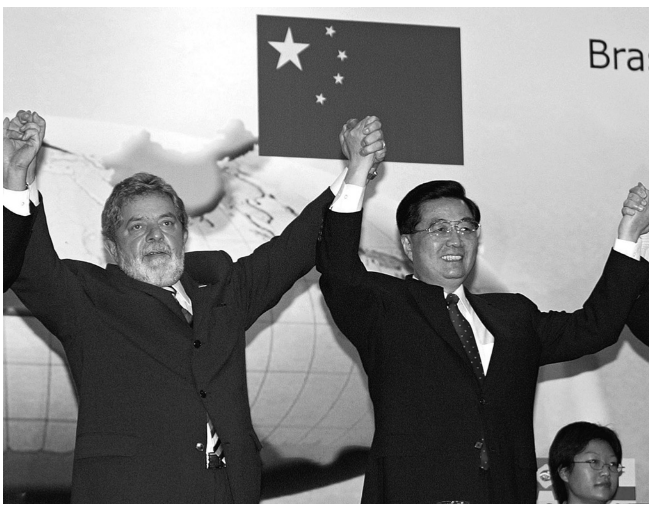
This article is reproduced, with slight modification, from a version published on the web in volume 1, 2006, of défense nationale et sécurité collective (http://www.defnat.com).

François Lafargue, Ph.D., Political Science, is a professor of geopolitics at the Paris Graduate School of Management. He is the author of several articles about China's search for energy sources.

then uses commercial ties to generate agreements on political and military cooperation.

The financial bridgehead Beijing has established in Latin America is now being continually reinforced. In 2003, more than a third of China's foreign investment was placed in Latin America, and the bulk of its investment outside Asia was made in the region. By way of comparison, 14 percent of Chinese investment was made there against 80 percent in Asia and 1.7 percent in North America.[2] China is also increasing investment in the oil sector in Venezuela, Colombia, and Mexico, without neglecting smaller producers such as Ecuador and Peru.

In August 2003, in Ecuador, the China National Petroleum Corporation (CNPC) was accorded prospecting rights by Ecuador's President, Lucio Gutierrez.[3] A few months later, China National Chemical (Sinochem) bought 14 percent of an oilfield in Orellana Province from ConocoPhillips for $100 million. Known as "Block 16," the oilfield has a surface area of 2,200 square kilometers. Sinochem takes 8,000 barrels per day from Block 16, which is principally exploited by the Spanish firm Repsol-YPF (55 percent) and the Taiwanese company Chinese Petroleum Corporation (31 percent). More recently, in September 2005, the consortium Andes Petroleum, led by the CNPC, bought the interests of a Canadian company, EnCana, for $1.4 billion. With this operation, China will gain production of 75,000 barrels per day (thanks notably to the Tarapoa and Shiripuno fields) and control of reserves estimated at around 143 million barrels.



AFP

Hu Jintao clasps hands with Brazil's Lula da Silva, 12 November 2004, at the end of the seminar "Brazil-China: Conquest and Challenge in the Building of a Combined Strategy."

In 2004, the CNPC bought a subsidiary of PlusPetrol in Peru, PlusPetrol Norte, for $200 million.[4] Then, in March 2005, China Petroleum and Chemical Corporation (Sinopec) signed an agreement with Cuba's Cubapetroleo to develop the field at Pinar del Rio on the west coast of the island.

Similarly, Mexico, although a member of the North American Free Trade Association (NAFTA, which consists of Canada, the United States and Mexico), has not escaped Chinese attention. The visits of Chinese Prime Minister Wen Jiabao in December 2003 and Hu Jintao in September 2005 ended with the signing of oil contracts. For the moment, Mexico is not exporting hydrocarbons to China, but the CNPC has obtained drilling licenses.

In Bolivia, Beijing's presence remains modest, but given the former's significant gas reserves, it could also become one of China's suppliers in time. In 2004, two Chinese companies began construction of a chemical complex there. Finally, in Colombia, China is offering to finance the construction of an oil pipeline on the Pacific Coast, to move oil to the Tribugal terminal in the Choco region from Venezuela's Maracaibo region.

Beijing's strategy of investing in raw material sources in South America is a priori comparable to that followed in Africa, but acceptance and support of its presence is facilitated by hostility and resentment in the region against the United States.

Venezuela's Role

Venezuela, the sixth largest world oil producer in 2004, remains a primary supplier to Washington, at a level comparable to Saudi Arabia's.[5] Even so, Venezuela constitutes the cornerstone of Beijing's diplomacy in Latin America. Venezuela has the largest oil reserves in the American continents (6.5 percent of world reserves), more than those of the three members of NAFTA combined. Its gas reserves are also abundant—2.4 percent of known world reserves, or slightly less than those of the United States. For the time being, Washington remains Venezuela's principal customer, purchasing 60 percent of its exports (the other clients, apart from Beijing, being Japan and Cuba); however, Venezuela's proportion of U.S. oil imports is in decline, from 17 percent in 1997 to 11.8 percent today.

The overt hostility the United States manifests publicly and diplomatically towards Hugo Chavez, Venezuela's current president, has given further impetus to the establishment of a firm partnership between Venezuela and China. In December 2004, during an official visit to Beijing, Chavez concluded several economic and commercial cooperation accords with Hu Jintao.

Cooperation in commercial and oil matters between the two countries has already proved fruitful. Bilateral trade has increased from $150 million in 2003 to $1.2 billion in 2004, and is thought to have doubled in 2005. A visit by Chinese Vice-President Zeng Qinghong to Caracas in January 2005 further underlined Beijing's interest in Venezuela. On that occasion, several contracts were signed, among them agreements permitting China to invest $350 million in the development of 15 oilfields (which could yield a billion barrels of oil), and $60 million in Venezuela's railway network, refineries, and other oil-related infrastructure. China also offered Venezuela a credit line of $40 million for the latter to buy Chinese agricultural equipment.

In 2004, Venezuela provided 0.5 percent of China's oil imports, with 12,000 barrels per day. Last year, the volume was nearly six times greater, at 68,000 barrels per day, or 1.8 percent of total imports. Contracts for offshore gas exploration have also been signed by Sinopec and Petróleos de Venezuela. At the end of August 2005, China and Venezuela created a joint company, in order to develop the Zumano field in the state of Anzoategui, where reserves are estimated at 400 million barrels. Thanks to these investments, Chavez plans to double his country's oil production by 2012—for China's specific benefit. China therefore expects to multiply its annual imports almost 5 times to reach 110 million barrels of oil and 1.8 million tons of Orimulsion® in less than 7 years.[6]

As one would expect, such close cooperation in the oil and commercial spheres would imply a need for Chinese expatriate commercial experts and businessmen. Not surprisingly, therefore, the Chinese-national community in Venezuela is now estimated to number more than 130,000.

However, irrespective of the current plans, the volume of Venezuela's exports to China remains limited for the moment because of the narrowness of the Panama Canal, which cannot accept large ships. The alternative maritime route, around Cape Horn, is twice as long (taking up to 45 days) as the Pacific crossing.

China a Threat?

From Washington, the Chinese presence is described by some as a threat under one or more of three headings: political, military, and economic.

Political threat. Chinese influence in the domestic political life of many Latin American countries is no longer debatable. In December 2004, during a visit by Hugo Chavez to Beijing, the Chinese Communist Party announced measures to strengthen links with Chavez's Movement for the Fifth Republic. This political measure was far from unique, since China maintains close relations with several "progressive" and revolutionary movements, including the Movement Towards Socialism (MAS) in Bolivia. Led by Evo Morales, an indigenous highlander, the MAS took power in Bolivia after elections in 2005. Moreover, in Nicaragua, the possibility exists of a victory by the Sandinista National Liberation Front, led by Daniel Ortega, in this year's presidential election—a worrying prospect for Washington.

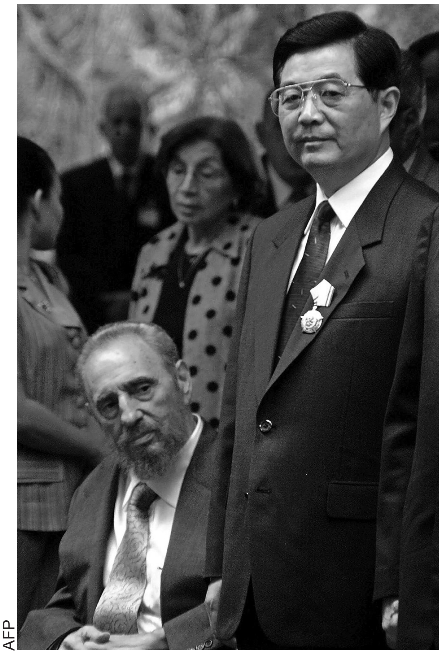
Some attribute the success of Chinese diplomacy to the limited interest the administration of President George W. Bush showed toward South America during his first term in office. Clearly, Beijing's political support for revolutionary movements in Latin America can only encourage mistrust towards the United States. The links created with Beijing have therefore bolstered the efforts of Hugo Chavez as standard-bearer for the "Bolivarian alternative for the Americas," a project intended to reinforce the integration of Andean region economies.

Additionally, in June 2005 Venezuela concluded the Petrocaribe agreement with 13 Caribbean countries. This agreement entails the delivery of Venezuelan oil at preferential tariffs in order to reduce the influence of the United States on the area's economies. One result is that today Cuba has attained a measure of energy independence attributable in part to its own production, which covers half the needs of the island, and to supplemental deliveries by Venezuela.

Security threat. In military matters, China's influence in Panama since the departure of the United States in December 1999 has fed alarmist debate in Washington. The role of the Hong Kong-based port-operating company Hutchison Whampoa Limited (HWL) has been the catalyst of such concerns. HWL is one of Hong Kong's principal firms, with 150,000 employees spread over 40 countries. Through its various subsidiaries, HWL has operations in the telecommunications, hotel, and port management fields. HWL's Hutchison Port Holdings (HPH), is one of the main port-operating firms in the world, handling 10 percent of the world's container traffic.

HPH now manages over 30 ports throughout the world, most being nodes of international commerce such as Rotterdam, Freeport in the Bahamas, Jakarta, Kwangyang and Pusan in South Korea, the British port of Felixstowe, and several Mexican terminals, including Veracruz and Manzanillo. Since 1996, HPH has also taken over management of 2 port terminals in Panama, Cristobal and Balboa, on leases for a period of 25 years. On several occasions the U.S. Department of State has voiced fears aroused by the management of this strategic point by a Chinese firm.

According to some American observers, the Chinese presence in the Canal Zone has made the Zone a veritable crossroads for international criminality. Two-thirds of the ships transiting the Canal come from or are going to the United States. During the passage through the Canal, ships travel at a very slow speed, giving criminal groups opportunities to stow drugs or contraband of Latin American origin on board for transport to the United States. China is openly accused of allowing these illicit activities to flourish. The Panama Canal is also seen as a springboard for clandestine immigration into the United States, with Chinese complicity.


AFP

Hu Jintao and Fidel Castro at a ceremony in Havana, 23 November 2004. Hu was awarded Cuba's Jose Marti medal.

In addition, control of the Canal is perceived as a diplomatic weapon for Beijing to use against states which have diplomatic relations with, and recognize, Taiwan. Among the 25 states maintaining diplomatic relations with Taiwan, almost half are Latin American, including Belize, Costa Rica, Guatemala, Honduras, Nicaragua, Paraguay, and El Salvador, together with 4 Caribbean countries (the Dominican Republic, Haiti, Nevis-Saint Kitts, and Saint Vincent and the Grenadines). Chinese control of this commercial artery, upon which many of these nations depend in part for trade, may well convince some of their governments to review their policies toward Taiwan.

The deployment of 125 Chinese police to Haiti in 2004, under the auspices of a UN mission, was also part of China's policy of influence.

Finally, China is also developing military cooperation with several Latin American countries. For example, Cuba allows China to use the telecommunications infrastructure built and since abandoned by the Russians, notably the Torrens base near Havana, which contains sophisticated equipment. This base was constructed in 1964 and housed more than 1,000 Russians until 2001.

Economic threat. China's presence is encouraged by Latin American governments intent on reducing the commercial and financial influence of the United States over the region.

In part, this is evident in the diversity of trade being developed with regard to raw materials. PRC investment is not limited to the hydrocarbon sector, but also includes trade and investment, most notably in mining and food production industries.

With 25 percent of the world's reserves of silver, 30 percent of tin, and 45 percent of copper, Latin America constitutes a real reservoir of raw materials. Today, Chile alone accounts for 40 percent of copper exports to China, which is the world's leading consumer of copper.

China is also multiplying its trade investments in Brazil. In 2000, it was 15th among Brazil's commercial partners; today it is Brazil's second-ranking customer. In 2004, the largest Chinese steel producer, Baosteel, invested $1.5 billion in Brazil. Also, in May 2004, Brazil concluded an agreement between Sinopec and Petrobras which aims to double Brazilian oil exports to China. Beijing, for its part, agreed to invest in oil and gas exploration and participate in infrastructure financing (oil and gas pipelines).

The United States has also been concerned about the increasingly numerous Chinese expatriate communities in Latin American countries and the risks of aggravated criminality, particularly in the strategic region between Argentina, Brazil, and Paraguay known as the triple frontier, or Tri-Border Area (TBA). Close to the Brazilian port of Paranagua, the TBA is formed by three towns served by the Pan-American Highway: Ciudad del Este (Paraguay), Iguazu (Argentina), and Fos do Iguaçu (Brazil). The ethnic Chinese population living in this region is now estimated at 30,000, mainly in Ciudad del Este.

Since the 1970s, the TBA has been a flourishing site for commerce (40,000 people cross the Friendship Bridge between Brazil and Paraguay each day), as well as smuggling and narco-trafficking. Several Chinese criminal organizations, such as the Fu Chin and the Tai Chen Saninh, are actively engaged in customs fraud, extortion, drug trafficking, and counterfeiting. These groups are also thought to provide selective logistic support to groups aiding radical fundamentalist Islamic movements present in the TBA. The United States assesses that this region, which houses a large Muslim community (mainly Lebanese but also Syrian), harbors dormant networks able to commit attacks of the kind perpetrated in Argentina on the Israeli Embassy in 1992 and 2 years later against a Jewish community center in Buenos Aires. The link between the drug cartels, the Asian triads, and some small groups associating themselves with radical Islam is seen as a destabilizing factor to the overall security of the region.

Above all, Washington is concerned about China's attitude in the coming years as it seeks to preserve its valuable economic interests and its expatriate presence. In Venezuela, several Chinese expatriates have recently been killed. Such actions could enable Beijing to justify a more assertive military presence.

The Future Azimuth

Their political, military, or economic goals notwithstanding, the Chinese face several obstacles in their dealings with Latin America.

First, Beijing will be unable to dominate these countries, whose economic weight remains significant—in contrast to their ability to influence certain African countries.

Next, with regard to competing for energy resources in Latin America (just as in Central Asia and Africa, particularly the Sudan), China faces rising competition from India, whose need for oil is also growing continuously. India shows every sign of becoming the fourth-ranking consumer of oil by 2010, behind only the United States, China, and Japan. Already, India depends on foreign imports for 70 percent of its oil, a proportion projected to reach 80 percent in 2010 and 87 percent in 2020. And, although the Indian government intends to speed up oil prospecting on its own territory, any possible new fields will not satisfy its steadily increasing consumption.

Not surprisingly, in March 2005 India concluded a partnership with Venezuela enabling an Indian company, Oil and Natural Gas Corporation (ONGC Videsh Oil), to acquire 49 percent of the San Cristobal oilfield. In Cuba, this same firm was granted several oil concessions. Cuba's exclusive economic zone is divided into 59 blocks, open to foreign investors since 1999. Estimates of the reserves have settled at around 5 million barrels.

Thus, China can be expected to continue its determined quest for hydrocarbons and, after Africa (especially Sudan and Angola), will be venturing into the United States' traditional zones of influence. Therefore, from the Gulf of Guinea to the Andean Cordillera, from the Caspian Sea to the Spratley Islands, a competition for oil between the United States and China is under way and can only get worse. From now on, however, the two protagonists must also take into account rising and determined competition from India in seeking fossil fuel resources. ***MR***

NOTES

1. Between 1991 and 2004, Indonesian oil production fell by a third.
2. See "China pours more money overseas," *China Daily,* 22 October 2004, on-line at <http://big5.china.com.cn/English/BAT/110046.htm>, accessed 7 April 2006; R. Evan Ellis, *U.S. National Security Implications of Chinese Involvement in Latin America* (Carlisle, PA: Strategic Studies Institute, U.S. Army War College, June 2005), on-line at <www.strategicstudiesinstitute.army.mil/pubs/display.cfm?PubID=606>, accessed 7 April 2006.
3. China National Petroleum Corporation is China's second largest oil company after China National Chemical. It ranks higher than China National Offshore Oil Corporation.
4. PlusPetrol is an Argentinean company, but the majority shareholder is the Spanish firm Repsol.
5. Venezuela's oil production constitutes 45 percent of South America's output. Its output is approximately 80 percent of Mexico's.
6. Orimulsion® is a bituminous hydrocarbon used around the world as an alternative fuel for electricity generation.